

Infrastructure in Africa – a Debt Perspective

OECD/IOPS Global Forum on Private Pensions, Mombasa, Kenya 30th – 31st October 2008

Nick Rouse





Frontier Markets
Fund Managers

- FMFM

Frontier Markets Fund Managers – FMFM

- A Fund Management Team
- Managing transactions for
 - Emerging Africa Infrastructure Fund; and
 - GuarantCo
- A group of multi nationals fluent in English, French, Spanish, Dutch and Italian
- Based in London



EMERGING AFRICA INFRASTRUCTURE FUND

- EAIF

Emerging Africa Infrastructure Fund - EAIF

- **First dedicated debt fund for sub-Saharan Africa**
- **Size: US\$305 million, refinanced to US\$365 million by the end of 2006**
- **Original sponsor: UK Government – DFID**
- **3 other European Governments joined (Sweden, Netherlands, Swiss)**
- **Debt from three development finance institutions and three private sector international banks**
- **Public/private sector partnership**
- **Donor aid funds leveraged private sector capital for development purposes**
- **First multi-donor initiative by Private Infrastructure Development Group (PIDG)**

GuarantCo



Guarantees For Development

GuarantCo

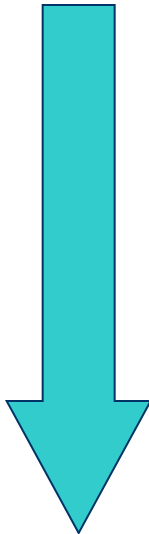
- Aims at addressing failures in domestic markets to supply capital to infrastructure projects in Emerging Markets by:
 - providing guarantees as credit enhancement of local currency debt
 - supporting both:
 - private and municipal sectors to obtain such capital
 - domestic market to supply such capital

GuarantCo Offers

- Credit enhancement products such as:
 - Partial Credit Guarantee to local banks to cover default risk on under-lying debt service
 - Liquidly guarantee
 - Bond guarantees
 - Tenor extension
- Principle of risk sharing with local debt providers
- Acceptance of certain local currency risks

Infrastructure finance – hierarchy of difficulty

Easy



Difficult

- Telecoms
- Mining
- Agribusiness
- Power
- Transport
- Water

And how this looks in figures?

Primary Sector	Investment in government assets (US\$ millions)	Investment in facilities (US\$ millions)	Total investment (US\$ millions)	% of Total investment
Energy	1,086	6,084	7,171	20.7%
Telecom	3,773	19,754	23,527	67.9%
Transport	899	2,927	3,826	11.0%
Water & Sewage	35	111	146	0.4%
Total	5,793	28,876	34,669	100%

Private participation in infrastructure, in Sub Saharan Africa 1990-2005

Source: Private Participation in Infrastructure Projects Database, World Bank Group

Infrastructure finance – Future requirements

- 2002 - EAIF Established – US\$8 BN of projects identified
- 2007 - The Banker – “US\$26 BN to US\$40 BN in next 5 years and average of US\$10 BN a year after that”
- 12th October 2007 - Engineering News – “Congo signed a deal to construct 1500 KM of new railways worth US\$3 BN”
- Inga Falls – Grand Inga 55,000 MW cost US\$50 BN
- Nigeria – 18 IPPs

Infrastructure finance - Sources

- International Commercial Banks – shortest tenors
- Domestic Banks – shorter tenors
some hard currency
- DFIs – 15 year + tenors
Tied aid?
- Private Equity, Hedge Funds – equity with exit
- International Bonds
- Local Bonds

Infrastructure finance – Telecoms

- **Mainly Mobile**
- **Well established model – Celtel worth US\$3.4 billion**
- **Operators have a full control on cash flows generation**
- **No failure once EBITDA positive**
- **Less risk than Developed World**
 - No free handsets
 - Lower churn / competition
- **Financing issues:**
 - **US\$ lending -v- local currency cash flows**
 - **Short Tenors – repay in five years**

Infrastructure finance – Mining and Agribusiness

- **US\$ cash flows available**
- **Good development benefits**
 - Clean water
 - Power
 - Transport links
 - Employment
 - Health services
- **Market Risk**

Infrastructure finance – Power

- **Creditworthy off-takers**
- **Regulator not always independent or in place (political interference in tariff setting)**
- **Affordability / subsidy availability**
- **Fewer sponsors**
 - Enron departed, leading to other developers retreating from the region
 - Current Players
 - Globeleq
 - Aldwych
 - Corporate
 - Local players
- **Financing issues:**
 - **US\$ lending -v- local currency denominated tariffs**
 - **Long Tenors – repay in fifteen years or more**

Infrastructure finance - Aircraft

- ECA Finance available for new aircraft
- But only max 80%
- Pre-delivery finance need and balance of funding
- Long tenors on “naked risk” – over 10-years
- So need financially sound operations
- In Sub-Saharan Africa only South African Airways, Kenya Airways and Ethiopian Airlines qualify
- Ethiopian Airlines is a role model

Infrastructure finance - Ports

- Public Sector model generally sub-optimal
- Vested Interests
- Experienced international operators available – Maersk, P & O Nedlloyd, Mersey Docks & Harbour Board
- Problems re security/deficient legal systems
- “National Assets” – expropriation risk
- BOT opportunities – SPM Ghana
- US\$ income to match US\$ borrowing

Infrastructure finance - Airports

- Public Sector model generally sub-optimal
- Vested Interests
- Experienced international operators available
- Problems re security/deficient legal systems
- “National Assets” – expropriation risk
- BOT opportunities
- US\$ income to match US\$ borrowing

Infrastructure finance - Pipelines

- Open multi-jurisdiction – lowest common denominator Country Risk
- Vested Interests
- Problems re security/deficient legal systems
- “National Assets” – expropriation risk
- BOT opportunities
- Local currency income versus US\$ borrowing

Infrastructure finance - Railways

- Colonial Legacy assets
- Colonial configuration and rationale
- Some private sector dedicated building – mining project based
- Privately owned rolling stock becoming more prevalent – computer tracking
- Vested interests – power of employees
- Freight is the future
- Local currency versus US\$ borrowing
- Gautrain?

Infrastructure finance – Roads and Bridges

- No successful toll road or bridge outside South Africa but Lekki in Nigeria signed in September 2008
- Transparent tendering for contracts an issue
- Sub-economic tendering?
- Limited sponsor interest
- Bad experience with donors – Grinaker LTA
- History of loss-making for contractors
- Cost versus capacity / willingness to pay
- Shadow toll roads the answer?

Infrastructure finance – Water

- Political Interference
- Universal entitlement – Should be free
- Too many “misunderstandings”
- No private sector capital
- Only 14 PPI deals since 1996; mainly Management Contracts
- Debt pushed out by grant monies

General Lessons

- Private Ownership or management necessary for efficiency gains
- And to address vested interests
- Political will
- Legal framework for contracts
- Good regulation to address regulatory risk
- Recognising private sector concerns
- Government capacity

Frontier Markets Fund Managers Team

		<u>Direct Tel Number</u> +44 (0)20 7815-	<u>Email Address</u> @frontiermarketsfm.com
Nick Rouse	Managing Director	2780	nick.rouse
Chris Vermont	Head of Debt Capital Markets	2950	chris.vermont
Douglas Bennet	Senior Guarantees Executive	2786	douglas.bennet
Roland Janssens	Senior Investment Adviser	2926	roland.janssens
Orli Arav	Senior Investment Adviser	2782	orli.arav
Martijn Proos	Senior Investment Adviser	2951	martijn.proos
Benito Grimaudo	Investment Adviser	2784	benito.grimaudo